

U.S. Department of Housing and Urban Development
Office of Chief Financial Officer



FY 1997 ACCOUNTABILITY REPORT



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THE SECRETARY'S MESSAGE

I am pleased to transmit to you the Department of Housing and Urban Development's second annual *Accountability Report*. It combines into one consolidated report information usually included in several separate reports and is a focused look at the Department's financial performance for Fiscal Year 1997.

The Department has been preparing annual financial statements pursuant to the Chief Financial Officer Act of 1990, and in Fiscal Year 1996, HUD received an audit opinion with two qualifications regarding credit reform and income verification. For Fiscal Year 1997, the Department implemented processes and procedures whereby the estimate of excess subsidy payments is now considered reasonable by the auditors and is no longer an audit qualification issue. The credit reform issue will be resolved this year.

In last year's report, I stated that it was "my personal goal and commitment to build a streamlined federal agency which focuses on the needs of the American people and ensures that the Department carries out its mission with proven competence." We have started this arduous journey and in the past twelve months, the HUD 2020 Management Reform Plan was developed to address significant management deficiencies within the Department. The Plan is an unparalleled effort on the part of any federal agency to clarify its mission, to modernize its business practices and processes, and to manage its programs and people more efficiently and responsibly.

At President Clinton's direction and with Vice President Gore's guidance, we set a course to fix these long-standing management deficiencies and to close the competence gap by eliminating waste, fraud and abuse. HUD has demonstrated remarkable internal strength and the ability to re-invent itself during the past year, as evidenced by the progress made to date in implementing our Management Reforms. We have completed implementation plans for the following Centers: Real Estate Assessment, Enforcement, Section 8 Financial Management, Homeownership, Troubled Agency Recovery, Accounting and Special Applications.

These initial steps, while important and critical, do not mean that the Management Reform process is completed, because there is still much to be done. We have instituted a continuous and vigorous review of implementation plans, activities and timelines. In addition, the Department is committed to an on-going dialogue with the Congress, General Accounting Office, our Office of Inspector General, our clients and customers, employees and the unions; to fine tune our efforts to make these Management Reforms work and become a reality.

We did not undertake these management reforms solely to improve administrative capacities. Rather, HUD has worked to restore public confidence in order to win more resources to create jobs, stimulate economic activity, house low-and moderate-income Americans and end the plague of housing discrimination. During Fiscal Year 1998, we will continue to maintain our focus on broadening and deepening the roots of reform to ensure that new automated systems are brought on-line, new centers are opened and operating, and HUD's ways of doing business are changed. It is readily apparent that the HUD of today is smaller and better than it was a year ago.

Fiscal Year 1997 was a watershed year for the Department in laying the foundation for Management Reforms. Fiscal Year 1998 will require the Department to take the prudent and necessary actions to build upon this foundation and show tangible results.

With the continued support of the Administration and the Congress, HUD is showing that it is a responsible steward of the taxpayers' investments and can competently deliver programs and services to the nation's communities. Working together, I know that HUD will endeavor to meet all challenges it will face during the coming years.



Andrew Cuomo
Secretary

March 27, 1998

I am pleased to present the Department of Housing and Urban Development's Accountability Report for Fiscal Year 1997. This is the second year that HUD has served as one of the pilot agencies preparing Accountability Reports. This report is part of a Government-wide effort to streamline financial reporting by including information (such as on the Federal Managers' Financial Integrity Act, the Secretary's Audit Resolution Report to Congress, Prompt Payment Act, Civil Monetary Penalties, and Debt Collection reporting) previously included in several separately issued reports.

FY 1997 was a year of significant changes within the Department, including several key improvements in the financial management arena. Specifically, we addressed five major concerns: (1) coordinating the budget process; (2) consolidating accounting operations; (3) improving management controls; (4) increasing system integrity, and (5) addressing prior year audit qualification issues. These areas are discussed in greater detail below.

Coordinating The Budget Process

Budgeting, strategic planning, and financial management are critical to HUD's success. In the past, these functions were independent, fragmented and disjointed, preventing clear accountability and necessary coordination. In 1997, the Budget Office was consolidated into the Office of the Chief Financial Officer. Another important improvement is that HUD has recently established a chief financial officer position for all major program offices to mirror the operations of the Department's Office of the CFO. This structure will insure more accountability and better departmental coordination. As a result, there is now greater consistency and uniformity of our financial information, performance measures are part of the budget process, and there are clear lines of authority and responsibility.

Specific results include: the submission of a timely and accurate budget and financial plan for the President's FY 1999 budget; the development and timely submission of the Departmental Strategic Plan; and the development of the Annual Performance Plan. The Performance Plan included performance and output measures in accordance

with the provisions of the Government Performance and Results Act and linked such measures with our strategic goals and with our program budget estimates. In addition, we are developing a resource evaluation and assessment tool to further link personnel resources with program needs.

Consolidating Accounting Operations

We have begun consolidating our eleven accounting offices around the country into one location. This will result in less duplication; more efficiency in accounting operations; fewer positions; optimal workload productivity; and greater consistency in accounting practices. Consolidating to one site will also result in substantial savings in annual operating costs. Already we have closed two offices; six more will be closed by the end of FY 1998. By mid-FY 1999, all accounting transactions will be processed in our Fort Worth Accounting Center.

Improving Management Controls

We made significant changes during the year in the area of management controls. All management deficiencies for the entire department – material weaknesses, reportable conditions, and OIG and GAO audit findings – were catalogued. Bi-monthly meetings with all program offices were instituted to assess progress in resolving these issues. This process will continue.

To determine how to balance HUD's duties of fiscal responsibility and social responsibility, we created teams which conducted risk assessments for six program areas. These assessments resulted in recommendations to better manage risk exposure in the related programs, which were adopted by program managers. As a result of this exercise, we created the Office of Risk Management which is currently conducting Front End Risk Assessments for the following HUD Centers: Homeownership, Enforcement, Assessment, Troubled Agency Recovery, Section 8 Financial Management, and Special Applications. This process will enable program management to better incorporate risk management into their program design.

Increasing System Integrity

As part of its management reform plan, the Department evaluated efforts to improve its financial management systems, which are critical to the success of HUD's programs. HUD still maintains four separate general ledger systems which are not fully integrated with the program systems.

A Financial Systems Integration team was established to evaluate the status of the financial systems integration plan and provide management with options for completing the project. The Department decided to continue with full implementation of the Federal Financial System (FFS), a commercial off-the-shelf system currently supporting HUD's administrative accounting and the assisted housing program. This decision was based on considerations relating to cost, implementation schedule, and risk avoidance. Over the next two years, FFS will become the Department's sole general ledger system, producing the required internal and external financial reports. FFS will replace FHA's existing general ledger system, will serve as the Department's consolidated general ledger (which will allow us to eliminate the remaining general ledger systems), and will interface with the program systems.


HUD continued to show progress in improving its financial management systems during 1997. Our preliminary systems review showed that we had 38 non-conforming systems in FY 1997, compared to 85 non-conforming systems in FY 1996. A more complete review will be completed later in the year to ensure that the critical conforming systems do indeed comply with the requirements of OMB Circular A-127. In addition, those systems used to produce the Department's consolidated financial statements for its grant, loan, subsidy programs and for Ginnie Mae's financial information are now in compliance with applicable standards. During 1997, HUD also implemented the Community 2020 system which uses contemporary mapping software to provide grantees and the public with important information on HUD's programs and funding in any geographic area.

Audit Opinion

Significant progress was made in addressing the two audit qualifications relating to the FY 1996 audit opinion, as reflected in the fact that the FY 1997 audit opinion was qualified for just one issue. The most notable improvement was the removal of the qualification issue related to improving the estimate of excess payments made under the Department's Section 8 and Low Rent Public Housing programs. The Department was able to address this issue by doing the following: (1) including Supplemental Security Income in the statistical sample of households used for computer matching; (2) using a lower threshold (than used in the prior year) for purposes of determining computer matching differences between household income as reported by a statistical sample of tenants and as maintained by the Internal Revenue Service and the Social Security Administration; and (3) ensuring that the Department's databases of households included a higher percentage of tenants than in prior years.

With regard to the Credit Reform qualification issue, the separately issued financial statements of the Federal Housing Administration (FHA) comply with generally accepted accounting principles and received an unqualified opinion. However, government accounting standards regarding credit reform activity require the FHA statements, when rolled up into the Department's consolidated statements, to use a different basis of accounting for credit reform transactions. To that end, the Department was able to present this information only as unaudited supplemental information. We expect that the FY 1998 audited financial statements will include the effects of credit reform as required by government accounting standards.

FY 1997 was a year with significant financial management accomplishments. However, I believe that with our systems integration efforts and our consolidation of financial management functions both on track, our greatest accomplishments are still to come.



Richard F. Keevey
Chief Financial Officer

March 27, 1998